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FCC Action Begins the TV Dealmaking Dance

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Just days after the FCC's decision loosening the media-ownership rules, dereg fever hit Fairbanks, Alaska, TV market No. 203. The *Fairbanks Daily News-Miner* reported that its owners "will likely buy" Clear Channel's cross-town KTVF(TV) now that the newspaper/broadcast crossownership ban has been lifted in the market.

Okay, not exactly a Klondike gold rush, but the deal does illustrate who some broadcasting executives believe the big winners are in FCC's media-ownership ruling last week: newspaper owners with an appetite for co-located TV stations.

But newspaper publishers won't be the only consolidators. The biggest broadcasters will seek to take advantage of the new rules by picking up stations in large markets where they previously could not. For example, CBS is said to be talking to Raycom about buying its Cleveland duopoly: WOIO-TV, the CBS affiliate, and WUAB(TV), the UPN affiliate.

Raycom, in turn, has reportedly talked to LIN Television about the possibilities of a merger between the two companies. Although he didn't mention specific companies, LIN CEO Gary Chapman recently told analysts that a merger with another company is a viable strategic alternative.

Also, CBS is believed to be interested in several Meredith stations, including WGCL(TV) Atlanta and KPHO-TV Phoenix, both CBS affiliates. No comment from CBS, although it's no secret that the company would like to own more stations. Meredith Broadcasting chief Kevin O'Brien says the network hasn't talked to him about those stations.

Wall Street sources also say that CBS and Sinclair have talked about a possible swap of assets that would give CBS Sinclair's KOVR-TV Sacramento, Calif.

Sinclair on the move

Sinclair is making moves in several other markets as well. Sinclair Broadcasting President David Smith said the company will "immediately move forward to acquire stations that we currently program pursuant to local marketing agreements" in Baltimore, Greenville, S.C.-Asheville, N.C., and Charleston, S.C. Under an LMA, one station operates another by contract.

Smith also said the company intends to seek waivers of the new duopoly rules to acquire stations with which it has LMAs in Columbus and Dayton, Ohio, and Charleston, W.Va.

Sinclair has also told analysts and investors that more than a half-dozen TV stations, accounting for 15%-20% of the company's operating cash flow, are up for "strategic review." In addition to KOVR-TV, the stations include KDNL St. Louis and KMWB-TV Minneapolis.

Many in the industry do not expect a tidal wave of deals in the wake of the new rules. But to hear Paxson Communications' Bud Paxson tell it, his phone is burning up with calls from potential buyers for his stations. He claims he has had inquiries about every one of his 60 owned TV stations. He says if NBC doesn't buy the rest of his company now that the rules have changed, someone else will or he'll sell off the stations piecemeal. NBC owns 33% of the company and has options to buy the rest.

NBC's response: "We have never viewed regulatory constraints as an issue in our relationship with Paxson. While [the] rulings could theoretically make an NBC-Paxson combination more feasible, we need to assess the overall strategic merits of a Paxson acquisition."

People familiar with NBC's thinking on the issue surmise that Paxson's comments last week were to smoke out NBC. But the network wasn't talking. "They just aren't there yet," said one source. "But know this, they take the Paxson investment very seriously. They will do what they have to to protect it."

Besides figuring out what to do with Paxson, NBC intends to add Telemundo affiliates to its station portfolio and possibly some English-language stations as well, though not a major expansion of the latter, according to sources.

"For mainstream stations," one source said, "NBC's issue is that most of their big-market affiliates are owned by old-line newspaper companies like Gannett, Cox and Belo and those companies aren't going to sell."

Fox sources say the company is looking to fill holes in its list of station markets as well and create duopolies where it doesn't have them. It doesn't have much room to grow under the new cap, however. It already reaches 44%-plus of the national TV audience.

Fox has talked to Emmis Communications about selling to Emmis several of its smaller-market stations, including WBRC(TV) Birmingham, Ala., and KTBC(TV) Austin, Texas. Those talks continue, although Emmis's Jeff Smulyan said last week that nothing is imminent.

There are plenty of deals that would make sense for ABC to take advantage of, sources speculate. Among them are acquisitions of Scripps and Allbritton, two groups with major ABC-affiliate holdings. ABC has talked with both in the past but couldn't stomach the price tag.

Fishing for Fisher

Fisher Broadcasting would also make sense for ABC, although the company took itself off the block earlier this year after failing to attract what it considered high enough bids.

But ABC has shown little inclination to buy. "They haven't been aggressive because they think the TV business is a declining business," said one Disney follower. "They think it's going to suffer from cable and fragmentation, and they aren't willing to pay big multiples. With media dereg driving up multiples further, it's not likely they'll do anything."

As for Fisher, Wall Streeters believe it's just a matter of time before the company is sold. "Their timing was bad," said one investment banker about Fisher's auction process earlier this year. Now that the new ownership rules have been issued, it's more than likely that potential buyers, such as LIN, will approach Fisher again. LIN was a finalist in the earlier bidding. "They'll be gone in a year," predicted one Fisher follower.

It's expected that Gannett Co. will take the lead among newspaper companies in seeking out and buying TV stations in markets where it owns papers, for the most part in midsize markets. Gannett declined to comment last week.

One of the more likely scenarios, according to a Bear Stearns analysis of the new crossownership rules, would be for Gannett to try to acquire Raycom TV stations in four markets where it already has newspapers: KHNL-TV Honolulu (NBC); KOLD(TV) Tucson, Ariz., (CBS); WSTM(TV) Syracuse, N.Y., (NBC); and KSLA-TV Shreveport, La. (CBS).

Gannett could do some serious business with Clear Channel, which owns TV stations in four markets where Gannett has papers: WKRC-TV Cincinnati; WPMI-TV Mobile, Ala.; WORK(TV) Rochester, N.Y.; and WIXT(TV) Syracuse, N.Y. And Emmis owns three TVs where Gannett has papers: Charleston, S.C., Honolulu, and Tucson. Sinclair and Young also have stations where Gannett owns papers.

Of course, the most awesome merger partner for Gannett would be Hearst-Argyle, the Bear Stearns report points out. There's little station overlap, and the merged entity would have seven newspaper/TV combinations, with national TV reach of 32.6%. The only required divestiture would be a station in Greensboro, N.C., where both companies have a top-four station. There has been speculation in the past about such a merger, and both parties have denied that any negotiations toward that end were held. As Bear Stearns put it last week, such a deal "does not have a lot of likelihood."

At Tribune, TV chief Pat Mullen says the top priority is not finding newspaper/TV combinations. Plugging holes in the top-30 markets with TV stations coupled with finding duopolies is. "That's our primary focus."

That's not to say the company would shy away from a newspaper-crossownership deal if it makes strategic sense, he said. But the company wants to get back to a 50-50 balance (in terms of operating profit) between papers and TVs—where it was before its acquisition of Times Mirror Co. two years ago.

Chasing the WB

Tribune has talked to Granite Broadcasting on and off over the past year about purchasing its WB affiliates in San Francisco and Detroit, but the two parties have failed to agree on price. Granite told analysts recently the stations have been appraised at a combined $280 million.

There's also speculation that Tribune might target WB affiliates held by Sinclair or possibly Acme Communications, the WB station group controlled by The WB Chairman Jamie Kellner.

Many broadcasters believe that the FCC failed to help the broadcasters that need it the most: those struggling financially with mid- and small-market stations—by continuing to ban duopolies in small markets. "The FCC didn't go far enough in providing duopoly relief in the small markets," said Perry Sook, CEO of Nexstar Broadcasting Group.

Nexstar has quasi-duopolies in several markets through contractual arrangements, including joint-sales and shared-services agreements. Nexstar had hoped to buy the stations with which it has such agreements, but the rule prohibiting duopolies among a market's four top-rated stations put the kibosh on those plans. Some markets have only four stations or lack a fifth for a duopoly partner.

Sook plans to petition the FCC to reconsider its rules, pointing out that many top-rated stations in many small markets don't offer news but could if they were part of a duopoly.

For all the talk, the consensus among analysts and broadcasters, regardless of what they think of the new rules (and many find them lacking), is that there isn't going to be a huge buying spree of the "Oklahoma land rush kind," as Meredith's O'Brien put it.

Wall Street feels the same. "There may be a bantam wave of media mergers but surely not the tsunami envisioned" by some, wrote Merrill Lynch analysts Jessica Reif Cohen and Keith Fawcett in a report titled *Media Merger Mania: Forgettaboutit!!*.

Lots of Talk, No Action in San Francisco

You'd think that big-market consolidators would be drooling over the prospect of acquiring multiple stations in the nation's fifth-ranked market, San Francisco. At this point, though, there appear to be more sellers than buyers in what has been, in the past couple of years, the most topsy-turvy TV market in the nation.

Assuming the FCC's new ownership rules hold, San Francisco becomes one of a handful of triopoly markets, where one owner can control three stations because 18 or more are located there.

According to sources, in a market that hauls in an estimated $667 billion a year, four stations are for sale: those owned by Granite, Young, Pappas and Shop-At-Home. Speculation last week was that NBC, Hearst, Viacom and Cox were eyeing KRON-TV.

Sources insist, however, that both NBC, which owns KNTV(TV) and Telemundo station KSTS(TV) in the market, and Hearst Argyle, which would be a new TV owner there, in fact have no interest.

NBC is already invested in KNTV, and Hearst Argyle wouldn't want it without a major-network affiliation. "Hearst would only go into San Francisco if they could have an NBC affiliate," a source says.

Indeed, KRON-TV was an NBC affiliate, owned by the *San Francisco Chronicle*, and would have become an NBC O&O, but, in 2001, NBC's offer was beat by Young Broadcasting. In retaliation, NBC lifted its affiliation, and—poof—the Young station was an indie.

According to a report issued by Merrill Lynch examining the new ownership rules, KRON-TV's value, without the NBC affiliation, is "lastingly impaired." Cash flow went from $95 million in 2000 to -$4 million in 2002. Sources estimate that the station wouldn't fetch more than $200 million vs. $800 million Young paid for it.

Meanwhile, Granite's WB affiliate in San Francisco has been on the block for at least a year. Tribune is said to have taken more than one look and passed, not willing to pay Granite's price.

How about a combination of KRON-TV and The WB outlet? Sounds pretty good, but again no operator is likely to want to pay Young's asking price, which is said to be at least what the company paid for it.

Ask us

Confused about the bewildering ins and outs of the new ownership rules? We're not surprised. They're complicated. That's why, for the next several weeks, we'll try to help you out. If you have a question about what's allowed under the rules or what's prohibited, e-mail BROADCASTING & CABLE at askB&C@reedbusiness.com.

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